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SUBJECT: CHILE PROPOSES JOINT CHILE-U.S. FUND FOR SOLAR ENERGY;
OUTLINES RENEWABLE ENERGY CENTER PROJECT, FUNDING

REF: A) SANTIAGO 202; B) 08 SANTIAGO 1087; C) 08 SANTIAGO 1046; D)
08 SANTIAGO 792; E) 08 SANTIAGO 759

¶1. (U) This is an action request - see paragraph 11.

¶2. (SBU) SUMMARY: In a recent conversation with the Ambassador, Energy Minister Marcelo Tokman proposed a joint "U.S.-Chile Fund for the Development of Solar Energy," financed by US\$15 million from each country, to be announced at the Summit of the Americas. Post also received a description of Chile's renewable energy center. Chile's development agency, CORFO, will establish a \$400 million fund to provide subsidies, loan guarantees, and lines of credit to implement renewable energy projects. Chile has requested U.S. collaboration and assistance with both projects. The complete text of the GOC's papers describing the Solar Fund and the Renewable Energy Center is included (paras 12 and 13). End summary.

Proposed Joint U.S.-Chile \$30 Million Solar Fund

¶3. (SBU) Minister Tokman called the Ambassador on March 5 to restate Chile's interest in working with the U.S. on the Summit of the Americas, including the anticipated Energy Partnership of the Americas. Building on prior requests for a solar energy project (refs a and b), he suggested a presidential initiative in the form of a joint "U.S.-Chile Fund for the Development of Solar Energy," financed by US\$15 million from each country, to be announced at the Summit. He forwarded the text of Chile's proposal to the Ambassador (see paragraph 12).

Chile Plans to Establish Renewable Energy Center in 2009

¶4. (SBU) Gabriel Mendez, an advisor to Minister Tokman, separately confirmed to Post that the National Energy Commission (CNE) has US\$2 million from CORFO to develop a renewable energy center in Chile (see paragraph 13). CNE plans to inaugurate the Center by June of this year and have it fully operational by the end of 2009. Mendez explained that the Center is one of several initiatives to promote investment in renewable energy projects in Chile, including changes to energy laws and creating new financial instruments.

Information Clearing House and Investment Promotion

¶5. (SBU) Mendez described the Center's two distinct missions: information and investment. One function would be to act as an information clearing house for on-going research and developing technologies. Mendez noted the possibility of connecting the Center

and the International Renewable Energy Agency (Chile is a member) as well as research efforts in Europe or California. He explained that a priority for the Center is establishing collaborative agreements with other institutions and requested U.S. assistance in making these arrangements.

¶16. (SBU) Mendez said the Center's other function would be to act as a one-stop shop to promote investment in Chile by providing information about resources, financial instruments, and investment incentives. Within the next year and a half, the Center will be fully staffed with 15-20 people and an operating budget of about \$250,000/year.

Legal Changes to Promote Investment in Renewables

¶17. (SBU) According to Mendez, CNE is preparing changes to the country's laws to eliminate "obstacles" to investment such as allowing renewables to compete on a cost basis with conventional energy. Chile's existing renewable energy standards require that five percent of electricity be generated from non-conventional renewable sources by 2010 and ten percent by 2024. Mendez gave several other examples of proposed changes including lowering rates and creating tax incentives. He said subsidies are needed to allow generation projects under 100MW, which would include many renewable energy projects, to access transmission lines. [Note: Currently, only projects under 9MW can connect to the grid at no cost. End note.]

¶18. (SBU) Mendez noted the need to change Chile's electricity law to allow Centers of Economic Load Dispatch ("CDECs") to dispatch

electricity using a formula based on factors other than marginal cost. [Note: Under Chile's Electricity Law, companies engaged in electricity generation must coordinate operations through the CDECs, which are autonomous generating industry groups, to minimize the operating costs of the electric system. Generation companies meet contractual obligations with dispatched electricity that is either produced by them or purchased at the spot market price, which is set hourly by the CDEC based on the marginal cost of production. End note.]

\$400 Million Investment Fund for Renewables

¶19. (SBU) Mendez explained that CORFO is developing new financial instruments, including loan guarantees, subsidies, and lines of credit for renewable projects. It will establish a US\$400 million renewable energy investment fund to implement projects, including a US\$15 million solar pilot project. [Note: This appears to be part of the joint fund proposed by Minister Tokman, outlined in paragraph 3 above. End note.]

Renewable Energy and Technology Avoid Politics

¶10. (SBU) During a recent meeting with U.S. Ambassador to the OAS Hector Morales, National Energy Commission (CNE) Director of International Affairs Carlos Pina noted that in Latin America the energy issue is highly charged and often becomes politicized, making progress difficult. He outlined several themes for moving forward on energy issues: technical transfers, new technology, development, and renewable energy. Post now has concrete outlines of proposed activities that fit this model (reftels).

¶11. (SBU) Action requested: Chile is requesting several forms of collaboration, including: matching funds for the joint solar fund, technical assistance for setting up the new renewable energy center, and formal agreements with U.S. research institutions. Post recommends establishing, to the extent possible, partnerships with U.S. research entities that have appropriate experience in research collaboration and bringing new energy technologies to market, such as the Department of Energy's National Renewable Energy Lab (ref e). End action request.

¶12. (SBU) Begin text:

U.S. - Chile Fund for the Development of Solar Energy

With regard to renewable energies, despite the abundance of some natural resources in Chile, projects that make use of [such resources] are ultimately not competitive in the electricity markets due to the current development of the technologies and, for this reason, the establishment of subsidiary mechanisms is required. One example of this is large-scale power generation using solar radiation. Therefore, this category of projects requires special subsidiary actions, so that their technical and economic performance within national electricity systems can be validated through private demonstrative projects.

The joint development of these demonstrative projects will permit that technological advancements be applied promptly in Chile, and the participation of the USA would provide an interesting mechanism to facilitate the reduction of greenhouse gas emissions in the [sic] a developing country without compromising economic growth nor significantly altering energy prices. These conditions are fundamental requisites for the participation of developing countries in concrete actions to combat climate change, given the certainty that the efforts of developed countries will not be sufficient to stabilize emission levels in the long term. These collaborative actions are a fundamental piece of any long term agreement that could be adopted in Copenhagen at the end of the year 2009, and [defining these actions] forms a central part of the discussions that are being carried out in the framework of the United Nations Convention on Climate Change.

The goal of [a] partnership [with] these characteristics is mutually beneficial for both parties. On one hand, the USA revitalizes its commitment to renewable energies in a concrete manner, leading the necessary process of technological transfer in order to reduce greenhouse gas emissions and implementing a mechanism of collaborative actions that is vital to the participation of developing countries in the fight against climate change. Chile, on

the other hand, demonstrates with these actions that its commitment to reducing greenhouse gas emissions goes beyond the efforts that it has made to date and promptly incorporates new technologies that require an additional financial effort and will have a high impact on the security and sustainability of its power generation matrix. However, the actions to be designed must be concrete, have a high impact in demonstrating the willingness of both countries, as well as a high level of efficiency and effectiveness in their operation. Therefore, the following initiative is proposed:

At the upcoming Summit of the Americas. The U.S.A. and Chile would announce the creation of a Joint Chile - U.S. Fund for the Development of Solar Energy in Chile with a total value of US\$30 million, which would be constituted through a financial contribution of US \$15 million by each party. This fund would have the objective of beginning the development of pilot projects connected to the electricity systems during 2009.

This model of cooperation led by the U.S.A. would be an example that could be replicated in other countries of the region that have a commitment to climate change similar to that of Chile. It is a model based on equal efforts between the [sic] those who provide cooperation and those who receive it, in order to develop clean technologies with zero greenhouse gas emissions, and it emphasizes the development of new markets and technological transfer.

During the year 2009, a call for proposals under this competitive fund should be carried out for a power generation project using thermal solar concentration, whose scope, conditions, technical specifications, and other characteristics are currently being developed by Chile.

End text.

113. (SBU) Begin text:

Renewable Energy Centre

Promotion of Renewable Energy as Central Point of Chilean Energy Policy

The actions oriented for the development of renewables energies that are being promoted by the Chilean Government constitute a central part of its energy policy, which seeks to balance three main goals

for the country: security of supply, efficiency and environmental sustainability.

Chile has great potential in terms of renewable resources. Besides its hydro richness, the country has favourable conditions for geothermal, biomass, wind generation, solar, tide and wave energy. In this context, the government has been resolutely working to eliminate the barriers that these types of projects have faced, with important results for the country, since it will see its capacity in this type of energy duplicated during this presidential period.

As part of the measures for the promotion of renewables, the government has established modifications to the legal framework, special programs for subsidies, preferential credit lines, measurements and studies, and it has announced the creation of the Renewable Energy Centre, designating US\$ 2 millions [sic] to begin operations during the year 2009.

Functions of the Renewable Energy Centre

The Centre's purpose is to function as a "radar", identifying the developments in clean technology and the best practices worldwide in renewable energy. Furthermore, the Centre coordinates, regulates and spreads the information throughout the country, acting as a catalyst for its promotion and development.

Also, this initiative seeks to gather information on similar experiences with instruments and proposals for the elimination of barriers as a reference for the definition of public policies, to produce systematized registries of the natural available resources in Chile, to facilitate capacity building within the country, together with providing information and orientation for investors in renewables projects.

Focal Point of a Network of Centres Worldwide

Part of the role of the Centre is to act as regional focal point for the initiatives of other countries with high levels of advancement in the promotion of renewable energies. Likewise, the Chilean Government seeks to develop a network of centres from advanced countries that are producing and promoting technologies in clean energy, in order to create alliances and agreements with organizations specialized in research, innovation and development. With that purpose, the Centre seeks to create a contact net that pave the road into cooperation agreements during 2009.

End text.
SIMONS